

The NewsLine

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GERMANY

Ifo test: Only muted reaction to Brexit-vote

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According to the July Ifo test, business expectations in German industry clouded over only slightly despite the Brexit-vote. The assessment of the current business situation edged up a tad, reaching the highest level since August 2015. Surprisingly, business expectations in the services sector actually improved appreciably. So German companies are reacting calmly and without panic to the UK's planned exit from the EU. The results also show that the upswing in Germany is robust.

The fact that the UK's exit from the EU is probably not on the cards before early 2019 doubtless plays a role in the subdued reaction of German businesses, thus leaving plenty of time to react. Probably also of significance is the evident improvement in the global economy in mid-year. In major emerging markets and in the US there are signs that the economy is stabilizing or accelerating. On top of this, the German domestic economy is in very good shape. Developments in the construction sector currently stand out, with the backdrop of high housing needs, extremely favorable financing terms and healthy real income gains as propitious as it has been for a long time. However, it is still too early to sound the all-clear with regard to the impact of Brexit on the German economy. German exports are still likely to take a knock, especially due to the likely drop in demand from the UK. Uncertainty about the progress of the exit process and its economic repercussions could also temporarily weigh on general investment activity. We expect growth in Germany in the second half of 2016 to be somewhat weaker than in the first six months, but are still penciling in an average increase in real gross domestic product of 1.8% in 2016.

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